

**FORT BRAGG
MUNICIPAL IMPROVEMENT DISTRICT NO. 1
FINANCIAL STATEMENTS**

**TOGETHER WITH INDEPENDENT
AUDITORS' REPORTS**

FOR THE YEAR ENDED JUNE 30, 2008

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Board Members of the Fort Bragg
Municipal Improvement District No. 1
City of Fort Bragg
Fort Bragg, California 95437

We have audited the accompanying financial statements of the Fort Bragg Municipal Improvement District No. 1 (District), a component unit of the City of Fort Bragg, California, as of and for the year ended June 30, 2008. These financial statements are the responsibility of Fort Bragg Municipal Improvement District No. 1's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The District has not maintained historical cost records of its capital assets as required by accounting principles generally accepted in the United States of America. Due to the nature of the District's records, we were unable to satisfy ourselves as to the cost of recorded capital assets by means of other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we audited capital assets, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Fort Bragg Municipal Improvement District No. 1 as of June 30, 2008, and the respective change in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2009, on our consideration of the Fort Bragg Municipal Improvement District No. 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements. The accompanying supplemental information on page 18 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Davis Hammon & Co.

January 21, 2009

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008

As management of the Fort Bragg Municipal Improvement District No. 1 ("MID" or "the District"), we offer readers of the MID's financial statements this narrative overview and analysis of the financial statements for the MID for the fiscal year ended June 30, 2008. Please read this in conjunction with the District's financial statements, which follow this discussion and analysis.

Overview of the Financial Statements

This Discussion and Analysis is intended to serve as an introduction to the District's financial statements. The District's financial statements are for a single proprietary fund and include the financial statements and notes to those financial statements.

Proprietary Fund Financial Statements

The District's operations are accounted for as a single proprietary fund using the full accrual basis of accounting. In this regard, the District's operations are accounted for in a manner similar to a private business enterprise. Within this one proprietary fund, the District segregates revenues and expenses for various purposes such as operations, debt service and capital improvements, but that segregation does not create separate proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found in this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required and other supplementary information.

Financial Highlights

The Board of Directors (City Council) has retained the services of a professional consulting firm to prepare a Wastewater Rate Analysis. The purpose of the analysis is to determine annual revenue requirements, costs of services and appropriate, fair and equitable rates required in order to meet future operating and capital needs. The study will address current and near-term projected operating and capital needs and include suggested financial policy recommendations to assist the Board in meeting these objectives. Action for the implementation of any rate adjustments will be made early in the upcoming fiscal year.

(Please refer to the accompanying statements regarding the following discussions of the Fiscal Year Ended June 30, 2008 compared to June 30, 2007.)

Statement of Net Assets

Current Assets increased from \$500,347 to \$548,927. Noncurrent Assets decreased from \$36,162 to \$32,948 and Capital Assets, Net of Depreciation, increased from \$6,110,853 to \$6,578,454. Total Assets increased from \$6,647,362 to \$7,160,329.

Current Liabilities increased from \$506,427 to \$966,139, Noncurrent Liabilities decreased from \$548,195 to \$494,713 and Total Liabilities increased from \$1,054,622 to \$1,460,852.

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1
STATEMENT OF NET ASSETS

	June 30,	
	2008	2007
<u>ASSETS</u>		
Current Assets:		
Cash and Investments	\$ 269,852	\$ 24,640
Cash With Fiscal Agent	17	40
Accounts and Interest Receivable	266,664	475,667
Inventory	12,394	
Total Current Assets	<u>548,927</u>	<u>500,347</u>
Noncurrent Assets:		
Debt Issuance Costs (net)	<u>32,948</u>	<u>36,162</u>
Total Noncurrent Assets	<u>32,948</u>	<u>36,162</u>
Capital Assets:		
Nondepreciable	69,000	338,392
Depreciable	11,785,319	10,755,063
Accumulated Depreciation	<u>(5,275,865)</u>	<u>(4,982,602)</u>
Total Capital Assets (Net)	<u>6,578,454</u>	<u>6,110,853</u>
Total Assets	<u>7,160,329</u>	<u>6,647,362</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts Payable	33,252	253,038
Contract Retentions		23,227
Accrued Compensated Absences	60,882	53,570
Accrued Interest Payable	8,859	10,877
Deferred Revenues	2,231	20,539
Advances from Other Governmental Agencies	42,691	42,692
Current Portion of Long-Term Debt	<u>53,466</u>	<u>102,484</u>
Total Current Liabilities	<u>201,381</u>	<u>506,427</u>
Noncurrent Liabilities:		
Capital Lease Obligation	39,713	58,195
Bonds Payable	<u>455,000</u>	<u>490,000</u>
Total Noncurrent Liabilities	<u>494,713</u>	<u>548,195</u>
Total Liabilities	<u>696,094</u>	<u>1,054,622</u>
<u>NET ASSETS</u>		
Invested in Capital Assets (net of related debt)	6,030,275	5,460,174
Restricted for Wastewater Fine	35,000	35,000
Unrestricted	<u>(365,798)</u>	<u>97,566</u>
Total Net Assets	<u>\$ 5,699,477</u>	<u>\$ 5,592,740</u>

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1

**STATEMENT OF REVENUES, EXPENSES, AND
AND CHANGES IN NET ASSETS**

	For The Year Ended June 30,	
	2008	2007
Operating Revenues:		
Charges for Services	\$ 1,475,996	\$ 1,427,158
Total Operating Revenues	<u>1,475,996</u>	<u>1,427,158</u>
Operating Expenses:		
Sewer Collection	261,721	350,057
Sewer Treatment	733,972	655,784
General and Administration	527,742	425,648
Depreciation and Amortization	<u>293,263</u>	<u>315,467</u>
Total Operating Expenses	<u>1,816,698</u>	<u>1,746,956</u>
Net Operating Income	<u>(340,702)</u>	<u>(319,798)</u>
Nonoperating Income (Expenses):		
Taxes	67,733	54,672
Intergovernmental	383,843	537,186
Sewer Installation Fees	26,094	38,337
Investment Earnings	2,621	22,802
Other Nonoperating Revenue	2,631	4,641
Interest and Other Charges	<u>(35,483)</u>	<u>(44,917)</u>
Total Nonoperating Revenues (Expenses)	<u>447,439</u>	<u>612,721</u>
Change in Net Assets	106,737	292,923
Net Assets, beginning of year	<u>5,592,740</u>	<u>5,299,817</u>
Net Assets, end of year	<u>\$ 5,699,477</u>	<u>\$ 5,592,740</u>

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1
STATEMENT OF CASH FLOWS

	For The Year Ended June 30,	
	2008	2007
Cash Flows From Operating Activities:		
Receipts From Customers and Users	\$ 1,448,855	\$ 1,457,071
Payments to Employees	(1,110,536)	(918,966)
Payments to Suppliers	(415,287)	(235,019)
Net Cash Provided (Used) By Operating Activities	(76,968)	303,086
Cash Flows From Noncapital Financing Activities:		
Taxes	69,462	54,344
Intergovernmental	1,054,882	330,137
Other Nonoperating Revenue	2,631	4,641
Net Cash Provided (Used) By Noncapital Financing Activities	1,126,975	389,122
Cash Flows From Capital and Related Financing Activities:		
Interest and Other Charges	(35,814)	(43,739)
Principal Payments on Capital Lease	(17,500)	(16,632)
Principal Payments on Bonds	(85,000)	(75,000)
Grant Proceeds and Other Nonoperating Income	26,094	38,337
Capital Expenditures	(695,219)	(1,208,182)
Net Cash Provided (Used) By Capital and Related Financing Activities	(807,439)	(1,305,216)
Cash Flows From Investing Activities:		
Interest on Investments	2,621	26,455
Net Cash Provided (Used) By Investing Activities	2,621	26,455
Net Increase (Decrease) In Cash	245,189	(586,553)
Cash Balance, July 1	24,680	611,233
Cash Balance, June 30	\$ 269,869	\$ 24,680
Cash Balances Reported on Statement of Net Assets as:		
Cash and Investments	\$ 269,852	\$ 24,640
Cash With Fiscal Agent	17	40
Cash Balance, June 30	\$ 269,869	\$ 24,680
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ (340,702)	\$ (319,798)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used):		
Depreciation and Amortization	293,263	315,467
Changes in Assets and Liabilities:		
Decrease (Increase) in Receivables	(27,141)	23,498
Decrease (Increase) in Inventory	(12,394)	
Increase (Decrease) in Accounts Payable	4,135	197,152
Increase (Decrease) in Other Liabilities	5,871	86,767
Net Cash Provided (Used) By Operating Activities	\$ (76,968)	\$ 303,086
Noncash Transactions:		
Amortized Debt Issue Costs	\$ 3,214	\$ 3,013

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1) Summary of Significant Accounting Policies

A) Reporting Entity

The Fort Bragg Municipal Improvement District No. 1 (District) includes all of the funds and operations for the City of Fort Bragg (City) wastewater collection and treatment processes. The District is governed by a Board of Directors comprised of the members of the Fort Bragg City Council. The District, therefore, is considered a component unit of the City. The City exercises significant financial and management control over the District. The financial data of the District has also been included within the City's annual financial report for the fiscal year ended June 30, 2008.

The Fort Bragg City Manager, Finance Director, and City Clerk function as the District's Executive Director, Fiscal Officer, and Secretary, respectively. These City employees receive no additional compensation for work performed on behalf of the District.

The District does not have any component units as determined under criteria established by GASB.

Except for the items noted below, the financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

The District does not maintain inventory records of unused materials and supplies. All costs associated with the purchase and acquisition of materials and supplies are treated as a current operating expense on the accompanying financial statements.

The District has not maintained historical cost records of its capital assets

B) Description of Funds

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which the spending activities are controlled. The District's funds are organized as a single Enterprise Fund for reporting purposes. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is to finance or recover through user charges the costs, including depreciation, of providing goods or services to the general public.

C) Measurement Focus and Basis Of Accounting

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows.

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1) Summary of Significant Accounting Policies (Continued)

C) Measurement Focus and Basis of Accounting (Continued)

The District distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal, ongoing operations. Principal operating revenues of the District are charges to customers for sales and services. Operating expenses for the District include salaries and benefits, supplies and other services, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of GASB.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed. The District has elected not to apply FASB statements issued subsequent to November 30, 1989.

D) Assets, Liabilities, and Net Assets

1) Cash and Investments

Investments for the District are reported at fair value. The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The District's investments are held in the City of Fort Bragg's pooled investments.

2) Inventory

Inventories are valued at lower of cost(first-in, first-out) or market. Inventory for the year ended June 30, 2008 was \$12,394 and was the first year a physical inventory count was conducted.

3) Revenues and Receivables

All trade receivables are shown net of an allowance for uncollectible accounts. No allowances for uncollectible receivables were recorded, as amounts were deemed immaterial as determined based on an analysis of historical trends.

Property taxes - Property tax revenues represent property taxes collected for the repayment of the District's 1998 Wastewater Revenue Bonds. Property taxes for the current year were attached as an enforceable lien as of January 1, 2007, and were levied on July 1, 2007. Taxes are due in two equal installments on November 1 and February 1. The District relies on the competency of the County of Mendocino Assessor's office to properly assess, collect, and distribute property taxes.

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1) Summary of Significant Accounting Policies (Continued)

D) Assets, Liabilities, and Net Assets

4) Unamortized Cost of Issuance

Costs associated with the issuance of bonds are deferred and amortized over the term of the bonds using the straight-line method which approximates the interest method.

5) Compensated Absences

Earned vacation and a portion of accumulated sick-leave payable upon termination or retirement are accrued as compensated absences. The accrual includes the City's share of payroll taxes. Regular employees earn vacation hours based on the number of years of continuous service. No more than 240 hours (340 hours after ten years of continuous service) may be accumulated. Also, regular employees are given credit for eight hours of sick leave for each month of employment with unlimited accumulation. Each employee who has two or more years of service with the City and who separates from City service for any reason, except discharge for cause, is entitled to payment of the monetary equivalent of 30% of unused sick leave accrued to a maximum of 1,000 hours.

6) Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. These assets are being depreciated using the straight-line method over the assets' useful lives as follows:

	<u>Years</u>
Buildings	40 - 75 years
Utility plant	10 - 50 years
Machinery and equipment	3 - 40 years

7) Net Assets

The District's financial statements report net assets consisting of the following components:

Invested in Capital Assets, Net of Related Debt – This amount is comprised of total capital assets net of accumulated depreciation reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of capital assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

8) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

2) Detailed Notes on Accounts

A) Cash and Investments

Cash and investments are reported in the accompanying financial statements as follows:

City of Fort Bragg pooled investments with the Local Agency Investment Fund	\$ 269,852
Cash and investments with fiscal agent Money market	<u>17</u>
Total Cash and Investments	<u>\$ 269,869</u>

Interest earned on the City's pooled deposits and investments is allocated to the various funds based upon the average quarterly balances. The District's share of the pool is stated at fair value.

Authorized Investments – Investment Policy

The District's investment policy is the same as the City, and the District's funds are pooled within the authorized pool of investments of the City. Permitted investments cannot have a stated maturity greater than five years beyond the date of purchase. The table below identifies the types of investments that are authorized by the City's and, therefore, District's investment policy:

Authorized Investment Type

- | |
|---|
| <ul style="list-style-type: none">• Local District Investment Fund (California State Treasurer)• Securities of the U.S. Treasury and Government Agencies• Repurchase agreements and security lending agreements for U.S. Treasury and Government District obligations• Certificates of deposit (FDIC insured)• Money market mutual funds holding only U.S. Treasury and Government District obligations and cash• Bankers' acceptances• Commercial paper rated A-1 (S&P), P-1 (Moody's), and F-1 (Finch)• General obligations of any State or local political subdivision rated AA/Aa/AA or higher by two of the following: S&P, Moody's, or Fitch |
|---|

Authorized Investments – Debt Trustee Agreements

Investments held by bond fiscal agents (trustees) are governed by the provisions of the underlying indenture agreements rather than the general provisions of the District's investment policy or California Government Code. Investment agreements, guaranteed investment contracts, and similar instruments will require a corporate guaranty from the provider rated at least AA+ by Standard & Poor's or Aa-1 by Moody's.

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

2) Detailed Notes on Accounts (Continued)

A) Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2008, the District's investments had no significant exposure to interest rate risk.

Investment Type	Fair Value	12 Months or Less	Weighted Average (Years)
State Investment Pool (LAIF)	\$269,852	\$269,852	0.42
Held With Fiscal Agent:			
Money Market	17	17	-
Total	<u>\$269,869</u>	<u>\$269,869</u>	<u>0.42</u>

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District does not hold direct investments; therefore, there is no concentration of credit risk.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows deposits to be secured by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

2) Detailed Notes on Accounts (Continued)

B) Capital Assets (unaudited)

The District's capital assets activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Nondepreciable Capital Assets:				
Land and easements	\$ 69,000			\$ 69,000
Construction in progress	269,392	\$ 655,731	\$925,123	-
Total Nondepreciable Capital Assets	338,392	655,731	925,123	69,000
Depreciable Capital Assets:				
Buildings	3,322,742			3,322,742
Utility plant	6,392,946	925,123		7,318,069
Machinery and equipment	1,039,375	105,133		1,144,508
Total Depreciable Capital Assets	10,755,063	1,030,256	-	11,785,319
Less: Accumulated Depreciation:				
Buildings	(1,369,958)	(48,645)		(1,418,603)
Utility plant	(2,725,368)	(154,357)		(2,879,725)
Machinery and equipment	(887,276)	(90,261)		(977,537)
Total Accumulated Depreciation	(4,982,602)	(293,263)	-	(5,275,865)
Depreciable Capital Assets, net	5,772,461	736,993	-	6,509,454
Total Capital Assets, net	\$ 6,110,853	\$ 1,392,724	\$ 925,123	\$ 6,578,454

C) Capital Lease

The City of Fort Bragg has entered into a lease agreement as lessee for financing the acquisition of a sewer-vac truck. A portion of the lease has been allocated to the District for its share of the usage of the truck. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value for its future minimum lease payments. The cost of the truck allocated to, and reported by, the District is \$172,420, and accumulated depreciation was \$172,420 as of June 30, 2008.

The District's share of future minimum lease payments and the net present value of future minimum lease payments at June 30, 2008, were as follows:

Year Ended June 30,	Lease Payment
2009	\$ 21,443
2010	21,443
2011	21,443
Total Minimum Lease Payments	64,329
Less: Amount representing interest	(6,150)
Present Value Of Minimum Lease Payments	\$ 58,179

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

2) Detailed Notes On Accounts (Continued)

D) Long-Term Debt

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due Within One Year
Revenue Bonds					
1970 Sewer Revenue Bonds	\$ 50,000		\$ 50,000	\$ -	\$ -
1998 Wastewater Revenue Bonds	525,000		35,000	490,000	35,000
Revenue Bonds Payable	575,000	\$ -	85,000	490,000	35,000
Capital Lease Obligation:					
Sewer-vac truck lease	75,679		17,500	58,179	18,466
Total Long-Term Liabilities	<u>\$ 650,679</u>	<u>\$ -</u>	<u>\$ 102,500</u>	<u>\$ 548,179</u>	<u>\$ 53,466</u>

1970 Sewer Revenue Bonds, Series B. In 1987, the City issued \$585,000 in Sewer Revenue Bonds on behalf of the District. The bonds are not a general obligation of the City but are payable solely from revenues derived from taxes levied and collected on properties situated in the District. The bonds paid annual interest at varying rates between 12.0% and 4.80%. Interest on the bonds became payable commencing April 1, 1988, and semi-annually thereafter each October 1st and April 1st. Principal is paid in annual installments commencing October 1, 1988, through the year 2007 in amounts ranging from \$15,000 to \$50,000.

1998 Wastewater Revenue Bonds. In 1998, the City on behalf of the District entered into an agreement with the Association of Bay Area Governments (ABAG) whereby ABAG issued \$770,000 in revenue bonds to provide resources for the District to acquire and construct capital improvements to the District's wastewater system. The bonds are an obligation of ABAG and are payable solely from and secured by revenues that consist primarily of payments on an installment obligation of the District.

For the purposes of this report, the District has reported its liability under the terms of the installment agreement as 1998 Wastewater Revenue Bonds. Annual interest accrues at varying rates between 3.75% and 5.30%. Interest became payable commencing October 1, 1998, and semi-annually thereafter each October 1st and April 1st. Principal is paid in annual installments commencing October 1, 1998, through the year 2019 in amounts ranging from \$25,000 to \$55,000.

Debt service requirements to maturity for bonds payable by the Fort Bragg Municipal Improvement District No. 1 are presented on the following schedule.

Year Ended June 30,	Principal	Interest	Total
2009	\$ 35,000	\$ 24,765	\$ 59,765
2010	35,000	23,015	58,015
2011	40,000	21,140	61,140
2012	40,000	19,080	59,080
2013	40,000	16,960	56,960
2014-2018	245,000	46,906	291,906
2019	55,000	1,458	56,458
	<u>\$ 490,000</u>	<u>\$ 153,324</u>	<u>\$ 643,324</u>

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

3) Other Information

A) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District provides for property and liability insurance as a component unit of the City of Fort Bragg, which is a member of the Redwood Empire Municipal Insurance Fund (REMIF), a public entity risk pool currently operating as a common risk management and insurance program for several Northern California municipalities. The joint powers formation agreement of REMIF provides that REMIF will be self-sustaining through member premiums for liability insurance and will reinsure through commercial companies for other coverage.

The District's deductible is \$5,000 for property and liability loss, all per occurrence. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

B) Commitments and Contingencies

The District is subject to litigation arising in the normal course of business. In the opinion of the District's management, there is no pending litigation that is likely to have a material adverse effect on the financial position of the District.

C) Advances from Governmental Agencies

The City of Fort Bragg Redevelopment Agency advanced \$42,692 to the Fort Bragg Municipal Improvement District No. 1 on May 29, 2007, for the Wastewater Treatment Plant-Headworks Screen Project. The term of the advance is five years with payments of interest due at 5% and principle due of \$2,135 to be paid each quarter. No repayments were made by the Fort Bragg Municipal Improvement District during the year ended June 30, 2008.

On June 30, 2008, the City of Fort Bragg Water Fund advanced the Fort Bragg Municipal Improvement District No. 1 \$764,757 as a short term advance to cover the cash shortage.

SUPPLEMENTAL INFORMATION

FORT BRAGG MUNICIPAL IMPROVEMENT DISTRICT NO. 1

**SCHEDULE OF REVENUES AND EXPENSES
BUDGET (NON-GAAP) AND ACTUAL**

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final	(Budget Basis)	
Operating Revenues:				
Charges for Services	\$ 1,530,500	\$ 1,530,500	\$ 1,475,996	\$ (54,504)
Total Operating Revenues	1,530,500	1,530,500	1,475,996	(54,504)
Operating Expenses:				
Sewer Collection	241,270	241,270	261,721	(20,451)
Sewer Treatment	771,668	771,668	733,972	37,696
General and Administration	514,441	514,441	527,742	(13,301)
Total Operating Expenses	1,527,379	1,527,379	1,523,435	3,944
Net Operating Income	3,121	3,121	(47,439)	(50,560)
Nonoperating Income (Expenses):				
Taxes	53,000	53,000	67,733	14,733
Intergovernmental			383,843	383,843
Sewer Installation Fees			26,094	26,094
Investment Earnings			2,621	2,621
Other Nonoperating Revenue			2,631	2,631
Interest and Other Charges			(35,483)	(35,483)
Total Nonoperating Revenues (Expenses)	53,000	53,000	447,439	394,439
Income (Loss) Before Other Items	56,121	56,121	400,000	343,879
Capital Outlay	(95,961)	(1,360,940)	(760,864)	600,076
Debt Service Principal	(63,765)	(85,000)	(102,500)	(17,500)
Transfers In	(53,375)	211,482		(211,482)
Change In Net Assets (budget basis)	\$ (156,980)	\$ (1,178,337)	(463,364)	\$ 714,973
Adjustments to Reconcile to GAAP Basis:				
Capital Outlay			760,864	
Debt Service Principal			102,500	
Depreciation and Amortization			(293,263)	
Change In Net Assets (GAAP basis)			\$ 106,737	

COMPLIANCE SECTION

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board Members of the Fort Bragg
Municipal Improvement District No. 1
City of Fort Bragg
Fort Bragg, California 95437

We have audited the basic financial statements of the Fort Bragg Municipal Improvement District No. 1 as of and for the year ended June 30, 2008, and have issued our report thereon dated January 21, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fort Bragg Municipal Improvement District No. 1's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fort Bragg Municipal Improvement District No. 1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Fort Bragg Municipal Improvement District No. 1's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Fort Bragg Municipal Improvement District No. 1's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Fort Bragg Municipal Improvement District No. 1's financial statements that is more than inconsequential will not be prevented or detected by Fort Bragg Municipal Improvement District No. 1's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Fort Bragg Municipal Improvement District No. 1's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fort Bragg Municipal Improvement District No. 1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.



This report is intended solely for the information and use of the Board of Directors, management, others within the organization, federal awarding agencies and pass-through entities, and the Office of the Controller of the State of California and is not intended to be and should not be used by anyone other than these specified parties.

Davis Hammon & Co.

January 21, 2009



CALIFORNIA EMERGENCY MANAGEMENT AGENCY
LOCAL ASSISTANCE MONITORING BRANCH
 3650 SCHRIEVER AVENUE
 MATHER, CALIFORNIA 95655
 PHONE: (916) 845-8120 FAX: (916) 845-8380

REC'D JUL 09 2009

July 9, 2009

Mr. David Goble
 Director, Public Works
 Fort Bragg Municipal Improvement District No. 1
 416 North Franklin Street
 Fort Bragg, CA 95437



Audit # 04927

SUBJECT: SINGLE AUDIT REPORT FOR THE PERIOD ENDED JUNE 30, 2008
 FIPS #045-91051

Dear Mr. Goble:

Since the California Emergency Management Agency (CalEMA) (formerly the Governor's Office of Emergency Services (OES)) is subject to the requirements of Office of Management and Budget Circular A-133, Audits of States, Local Governments and Nonprofit Organizations, the CalEMA is required to monitor its subrecipients of federal awards to determine whether they have met the audit requirements of the Circular. The Circular specifically requires non-federal entities that expend \$500,000 or more in a year in federal awards to have either an annual single or program-specific audit, and that the audit report be submitted within nine months after the end of the audit period.

To date, an audit report for your organization for the year ended June 30, 2008 has not been received by the CalEMA. Accordingly, the CalEMA is requesting that you check one of the following options listed below, and return a signed copy of this letter to the above address within 30 days of its date, along with all appropriate documentation regarding your organization's compliance with the audit requirement. If findings were noted in your audit report, please include a summary of your management responses and corrective actions taken. In addition, please submit a copy of any separate letter to management mentioned in the audit report.

<input checked="" type="checkbox"/>	We have completed our A-133 audit for fiscal year(s) ended <u>6/30/08</u> . A copy of the audit report(s) is enclosed.
<input type="checkbox"/>	We expect our A-133 audit for fiscal year(s) ended _____ will be completed by _____. A copy of our audit report along with our management responses and corrective actions taken related to any findings will be forwarded to the CalEMA within 30 days of receipt of the report.
<input type="checkbox"/>	We are not subject to A-133 audit because: _____ We are a for-profit organization _____ We expend less than \$500,000 in federal awards annually _____ We are a component entity of the following organization and included in its A-133 audit: _____ _____ Other (please explain) _____ _____

Mr. David Goble
July 9, 2009
Page 2

This is to certify that, to the best of our knowledge and belief, the data furnished above is accurate, complete and current.

Crystal Prairie

Type or Print Name

7/13/08

Date

Public Works Project Analyst

Title

Signature

If you have any questions regarding this issue, please contact our office at (916) 845-8120.

Sincerely,



CATHERINE LEWIS
INTERIM BRANCH CHIEF